

Standard & Poor's Releases Bond Ratings of BBB+ For Good Shepherd Medical Center Bonds

Standard & Poor's Ratings Services reaffirmed its 'BBB+' rating to Gregg County Health Facilities Development Corporation bonds on behalf of Good Shepherd Medical Center, Good Shepherd Health System's flagship hospital and its largest member which constitutes the majority of the health system's assets. The outlook is stable. The stable outlook reflects Standard & Poor's view that Good Shepherd Medical Center's strong market position is secure.

Excerpt from the report states:

These ratings, in our view, reflect Good Shepherd Medical Center in Longview's following credit strengths:

- *Strong market share and rising patient admission trends through fiscal year-end September 30, 2009;*
- *A combined Good Shepherd Health System medical staff of 354 and growing team of associate and courtesy physicians;*
- *One of the four busiest emergency rooms in the State of Texas, with 118,713 visits in 2009; and*
- *Strong financial performance, with 2.6% and 3.3% operating and excess margins, respectively, recorded in 2009.*

The ratings further reflect Good Shepherd Health System's:

- *Comprehensive services offered through three hospitals, one of which is a 25-licensed bed critical access hospital in Linden;*
- *Dominant business position in Gregg and Harrison counties' East Texas service area with a 79% market share and a generally favorable patient volume trend;*
- *Strong financial performance in 2009 with margins as noted above, and improving from 2008's operating and excess margins of 1.5% and 2.4%, respectively;*
- *Favorable maximum annual debt service coverage of 2.8X in 2009 and 2.4X in 2008; and*
- *Improved management team with a new CEO as of June 2008, who has both nonprofit and for-profit management experience, and a new CFO as of 2009. Both executives have worked with larger organizations in more-competitive markets.*

Offsetting credit factors include:

- *A vulnerable payor mix with a bad-debt expense per net patient revenue ratio of 29%*
- *Strong competition and a decline in patient volumes in the first half of 2010;*
- *Moderately high debt leverage of 50.4% at fiscal year-end 2009 that might increase a couple percentage points with a planned debt issuance of \$20 million later this year; and*
- *Modest liquidity, in our opinion, with unrestricted cash to long-term debt ratio of 68.5% at September 30, 2009; this ratio improved to 82.1% at June 30, 2010, and, while better, is still*

slightly under our stand-alone hospital median for the rating of 99.3%. In our view, Good Shepherd Health System does not yet meet our criteria for peer comparisons to hospital systems, which requires three or more acute care hospitals and some evidence of geographic and financial risk dispersion.

“Good Shepherd Health System’s strong financial performance is the organization’s key credit strength, in our view.”